Grant Thornton
An instinct for growth™

UK Budget 2015
Impact on Corporates

The Chancellor announced changes that will have implications for corporates.

In the Summer Budget speech, the Chancellor spoke of his commitment to put public finances in order through a bold plan to be a more productive and balanced economy. Looking to the UK's fiscal policy he announced a series of tax and welfare reforms, a number of which will have a real impact on the environment in which corporate entities operate:

Corporation tax set to fall to 18% by 2020

The Chancellor announced, as part of his continued commitment to supporting investment and growth in the UK, that it will be cutting the rate of UK corporation tax to 18% by 2020. This unanticipated fall in the corporation tax rate to 19% on 1 April 2017, and then 18% on 1 April 2020, will give a much needed boost to the UK's competitiveness and leave companies with greater retained profits ripe for reinvestment.

This announcement is believed to impact over one million business, both large and small, and will give the UK the lowest rate of corporation tax in the G20.

Earlier payment of corporation tax where taxable profits exceed £20 million

There was a sting in the tail; where a company's taxable profits exceed £20 million (divided by the number of associated companies) they will now be expected to pay corporation tax even earlier - during the third, sixth, ninth and twelfth months of the chargeable accounting period. This is to bring the corporate payment dates in line with the rest of the G7 countries and individuals.

Annual Investment Allowance (AIA)

To promote investment, particularly within mid-sized businesses, the AIA will be set at a permanent level of £200,000 from 1 January 2016. AIA was previously set to fall to £25,000 from this date so this is a huge boost to the tax relief available and offers some certainty on future capital investments.

Should a company's chargeable accounting period straddle 1 January 2016, transitional rules with apply.

Enterprise zones

Enterprise zones were introduced in 2012 and offer tax incentives for new and expanding firms. The areas falling within enterprise zones have been extended to include some smaller towns in England in order to encourage job creation and to promote further investment. Further details are yet to be announced.

National Living Wage (NLW)

The government wants to move from a low wage, high tax, high welfare society to a higher wage, lower tax, lower welfare society. To support this initiative they have introduced a new National Living Wage (NLW) for workers aged 25 and above. From April 2016, the new NLW will be set to £7.20, increasing to £9 per hour by 2020.

Employment allowance for National Insurance Contributions (NIC)

In recognition that the NLW may increase costs for some business, the government have pledged to increase the employment allowance, which reduces employers NIC. The allowance will increase from £2,000 to £3,000 from April 2016, meaning that businesses will be able to employ up to four workers full time on the new NLW without incurring any employers NIC at all.

However, for companies where the director is the sole employee the allowance cannot be claimed from April 2016.

Apprentice levy

Large employers will be subject to an apprentice levy to finance expansion in the number and quality of apprenticeships. This will impact large employers, although this has, as yet, not been defined.

Does your company claim a corporation tax deduction for intangible assets?

Previously a company has been able to claim a corporation tax deduction for the cost of goodwill on an accounting basis through an amortisation charge to the profit and loss account. The Government has announced this deduction will no longer be available, impacting all acquisitions and disposals of goodwill from 8 July 2015.

Transfers of stock or goodwill to related parties

The government will amend legislation relating to the transfer of trading stock and intangib le assets to "related parties" to ensure that disposals made other than in the normal course of business are brought into account for tax purposes at full open market value. The intention is to prevent attempted avoidance by ensuring that, as far as possible, values brought into account are equivalent to those that would be achieved in a sale to an unconnected third party.

Controlled Foreign Companies (CFC)

From 8 July 2015 companies will no longer be able to utilise UK losses and other surplus expenses against a CFC charge. This is aimed at deterring companies from diverting UK profits overseas and will result in a corresponding UK corporation tax charge. This is likely to affect large UK multinational companies with overseas subsidiaries caught within the CFC rules.

Tackling anti avoidance

The government has set out to take "significant" action to tackle tax avoidance and aggressive tax planning. They have announced an additional investment of £800 million in this parliament to HMRC's work on non-compliance and tax evasion to triple the number of criminal investigations carried out by HMRC.

They have also pledged to improve transparency of tax strategies and give HMRC new powers to tackle those persistently avoiding tax.

General anti-abuse rule

A 'general anti-abuse rule' tax geared penalty and tough new measures for serial tax avoiders are set to be introduced, including publishing the names of people who repeatedly use failed tax avoidance schemes. It is no surprise that increased measures have been introduced to tackle avoidance given the government's stance of getting tough with tax avoiders.

Contact

If you would like to discuss any element of Budget 2015, please do not hesitate to call your usual Grant Thornton contact.

Peter Legge
Partner, Tax
T +44 (0)28 9587 1081
E peter.legge@ie.gt.com

Francis Shields
Associate Director, Tax
T +44 (0)28 9587 1116
E francis.shields@ie.gt.com

Mark Bradley
Manager, Tax
T +44 (0)28 9587 1122
E mark.bradley@ie.gt.com

10th Floor Clarence West Building, 2 Clarence Street West,
Belfast, BT2 7GP

@GrantThorntonIE

www.grantthornton.ie

Offices in Dublin, Belfast, Cork, Galway, Kildare, Limerick and Longford.